

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lake Missaukee Area Fire Authority	County Missaukee
Fiscal Year End March 31, 2006	Opinion Date October 4, 2006	Date Audit Report Submitted to State November 6, 2006	

We affirm that:

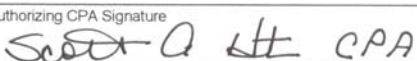
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☐ ☒ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 		Printed Name Scott A. Hunter, C.P.A.	License Number 1101009890

**LAKE MISSAUKEE AREA FIRE AUTHORITY**

**LAKE CITY, MICHIGAN**

**MARCH 31, 2006**

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MARCH 31, 2006

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*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 4, 2006

### INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Fire Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fire Department's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 16 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Missaukee Area Fire Authority, Missaukee County, Lake City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Lake Missaukee Area Fire Authority is a joint venture volunteer fire department supported by the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. The Management's Discussion and Analysis is intended to be the Lake Missaukee Area Fire Authority board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

**Financial Highlights**

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$509,190. Of this amount, \$38,574 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$11,528 and the Improvement Revolving Fund had an end of year fund balance of \$27,046.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire Department are governmental funds.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department’s financial position over time. The Net Assets of the Fire Department are \$509,190 at March 31, 2006, meaning the Fire Department’s assets were greater than its liabilities by this amount.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Lake Missaukee Area Fire Authority**  
**Net Assets as of March 31,**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current Assets	\$ 38,574	\$ 20,747
Non Current Assets		
Capital Assets	1,432,616	1,392,818
Less: Accumulated Depreciation	<u>(882,238)</u>	<u>(831,842)</u>
Total Non Current Assets	<u>550,378</u>	<u>560,976</u>
<b>Total Assets</b>	<u><u>\$ 588,952</u></u>	<u><u>\$ 581,723</u></u>
<b>Liabilities</b>		
Current Liabilities	\$ 18,927	\$ 22,376
Non Current Liabilities	<u>60,835</u>	<u>79,762</u>
<b>Total Liabilities</b>	<u>79,762</u>	<u>102,138</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	470,616	460,976
Unrestricted	<u>38,574</u>	<u>18,609</u>
<b>Total Net Assets</b>	<u>509,190</u>	<u>479,585</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 588,952</u></u>	<u><u>\$ 581,723</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

At the end of the current fiscal year, the Fire Department is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.



LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Lake Missaukee Area Fire Authority  
Change in Net Assets  
for the Fiscal Year Ended March 31,**

	<u>2006</u>	<u>2005</u>
<b><u>Revenues</u></b>		
<b>Program Revenues</b>		
Charges for Services	\$ 12,900	\$ 21,855
Operating Grants and Contributions	105,409	103,503
Capital Grants and Contributions	80,517	0
<b>General Revenues</b>		
Interest Earnings	950	1,015
Other Revenues	<u>6,182</u>	<u>0</u>
<b>Total Revenues</b>	205,958	126,373
<b><u>Expenses</u></b>		
Public Safety	<u>176,353</u>	<u>104,212</u>
Change in Net Assets	29,605	22,161
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>479,585</u>	<u>457,424</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 509,190</u></u>	<u><u>\$ 479,585</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2006, the Fire Department's net assets increased by \$29,605 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Lake Missaukee Area Fire Authority comes from the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. Each unit contributes an amount based on taxable value in each unit to support the Fire Authority. This revenue is shown as contributions from local units.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$176,353 in fiscal year 2006 on public safety expenses.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of Lake Missaukee Area Fire Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Lake Missaukee Area Fire Authority's general fund reported an ending fund balance of \$11,528. All of this amount constitutes unreserved fund balance. The fund balance of the Fire Department's general fund increased by \$252 during the current fiscal year.

**Improvement Revolving Fund** – At the end of the current fiscal year, Lake Missaukee Area Fire Authority's Improvement Revolving Fund reported an ending fund balance of \$27,046. All of this amount constitutes unreserved but designated fund balance. The fund balance of the Fire Department's Improvement Revolving Fund increased by \$19,713 during the current fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire Department's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$550,378 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$3,000 individually, plus all land. A summary of capital asset categories is illustrated below:

**Lake Missaukee Area Fire Authority**  
**Capital Assets as of March 31,**

	2006	2005
Land	\$ 8,680	\$ 8,680
Buildings	342,495	342,495
Equipment	1,081,441	1,041,643
	<u>1,432,616</u>	<u>1,392,818</u>
Less Accumulated Depreciation	<u>(892,513)</u>	<u>(831,842)</u>
<b>Net Capital Assets</b>	<u><u>\$ 540,103</u></u>	<u><u>\$ 560,976</u></u>

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Major Capital Asset events during the current fiscal year included the following:

- Bought 9 Scott Air Packs at a cost of \$39,798.

**Long-Term Debt.** As of March 31, 2006, the Fire Department had a loan payable of \$79,762 to Chemical Bank West for the purchase of a fire truck.

**Economic Condition and Outlook**

The Fire Department is expected to be supported by the City and Townships in the future.

A fire millage was once again levied for the 2006 tax roll. The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire Department's budgets for the 2006-07 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lake Missaukee Area Fire Authority at P.O. Box 803, Lake City, Michigan 49651.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 32,850
Accounts Receivable	5,724
	<hr/>
Total Current Assets	38,574
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	8,680
Buildings	342,495
Equipment	1,081,441
	<hr/>
	1,432,616
Less Accumulated Depreciation	(882,238)
	<hr/>
Total Capital Assets	550,378
	<hr/>
TOTAL ASSETS	\$ 588,952
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Current Portion of Non Current Liabilities	\$ 18,927
	<hr/>
<u>NON CURRENT LIABILITIES</u>	
Loan Payable	79,762
Less Current Portion of Non Current Liabilities	(18,927)
	<hr/>
Total Non Current Liabilities	60,835
	<hr/>
Total Liabilities	79,762
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	470,616
Unrestricted	38,574
	<hr/>
Total Net Assets	509,190
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 588,952
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		PROGRAM REVENUES			
		CHARGES FOR	OPERATING	CAPITAL	
FUNCTIONS/PROGRAMS	EXPENSES	SERVICES	GRANTS AND	GRANTS AND	TOTALS
			CONTRIBUTIONS	CONTRIBUTIONS	
<hr/>					
PRIMARY GOVERNMENT					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 176,353	\$ 12,900	\$ 105,409	\$ 80,517	\$ 22,473
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<u>GENERAL REVENUES</u>					
	Interest Earnings				950
	Other Revenues				6,182
<hr/>					
	Total General Revenues				7,132
<hr/>					
	Change in Net Assets				29,605
<hr/>					
	<u>NET ASSETS</u> - Beginning of Year				479,585
<hr/>					
	<u>NET ASSETS</u> - End of Year				\$ 509,190
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The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2006

	GENERAL FUND	IMPROVEMENT REVOLVING FUND	TOTAL GOVERNMENTAL FUNDS
<hr/>			
<u>ASSETS</u>			
Cash	\$ 5,804	\$ 27,046	\$ 32,850
Accounts Receivable	5,724	0	5,724
<hr/>			
TOTAL ASSETS	\$ 11,528	\$ 27,046	\$ 38,574
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>	\$ 0	\$ 0	\$ 0
<hr/>			
<u>FUND BALANCES</u>			
Designated for Fire Authority Improvements	0	27,046	27,046
Undesignated	11,528	0	11,528
<hr/>			
Total Fund Balances	11,528	27,046	38,574
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,528	\$ 27,046	\$ 38,574
<hr/>			

The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$	38,574
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$	8,680	
Buildings		342,495	
Equipment		1,081,441	
Accumulated Depreciation		<u>(882,238)</u>	550,378

Long term liabilities are not due and payable in the current period and  
are not reported in the fund.

Bank Loan - Fire Truck		<u>(79,762)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>509,190</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	IMPROVEMENT REVOLVING FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources			
Contributions from Local Units	\$ 101,409	\$ 0	\$ 101,409
Charges for Services	12,900	0	12,900
Interest and Rents	134	816	950
Other Revenues	10,182	0	10,182
Federal Sources			
FEMA Grant	80,517	0	80,517
Total Revenues	205,142	816	205,958
<u>EXPENDITURES</u>			
Public Safety	185,993	0	185,993
Excess (Deficiency) of Revenues Over Expenditures	19,149	816	19,965
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In	0	18,897	18,897
Transfer Out	(18,897)	0	(18,897)
Total Other Financing Sources (Uses)	(18,897)	18,897	0
Net Change in Fund Balance	252	19,713	19,965
<u>FUND BALANCES</u> - Beginning of Year	11,276	7,333	18,609
<u>FUND BALANCES</u> - End of Year	\$ 11,528	\$ 27,046	\$ 38,574

The accompanying notes are an integral part of the financial statements.



LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006

Net change in Fund Balances Total Governmental Funds	\$ 19,965
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(50,396)
Capital Outlay	39,798

Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	<u>20,238</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 29,605</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Lake Missaukee Area Fire Authority is a joint venture volunteer fire authority supported by the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire Authority has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lake Missaukee Area Fire Authority reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Improvement Revolving Fund* is used to account for the accumulation of funds for the purchase of capital improvements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

When both restricted and unrestricted resources are available for use, it is the Fire Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Fire Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

- I. The Fire Authority Board is limited to investments authorized by PA 20 of 1943 and has authorized the Fire Authority Treasurer to invest funds as follows:
  - a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
  - b. In certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Lake Missaukee Area Fire Authority Board at the Board's organizational meeting after each regular election of board members.
  - c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
  - d. In repurchase agreements consisting of instruments listed in subdivision (a).
  - e. In bankers' acceptances of United States banks.
  - f. In investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
  - g. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire Authority revenues are recognized when they become both measurable and available for use to finance Fire Authority operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 (amount not rounded) and an estimated useful life in excess of one year plus all land. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land improvements	20
Vehicles	10
Equipment	5-10

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on February 8, 2005, or as amended by the Fire Authority Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Fire Authority Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Authority because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Excess of Expenditures Over Appropriations**

For the year ended March 31, 2006, expenditures exceeded appropriations in the General Fund by \$75,312. This over expenditure was funded by greater than anticipated revenues. A budget was not adopted for the Improvement Revolving Fund.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Fire Authority's deposits are all on deposit with Chemical Bank West in Lake City, Michigan.

*Investment rate risk.* The Fire Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Fire Authority's cash requirement.

*Foreign currency risk.* The Fire Authority is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Fire Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Fire Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Fire Authority will do business in accordance with of the Fire Authority's investment policy.

*Concentration of credit risk.* The Fire Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Fire Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, none of the government's bank balance of \$48,594 was exposed to custodial credit risk because none of it was uninsured or uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fire Authority's investments are categorized to give an indication of the level of risk assumed by the Fire Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Fire Authority or the Fire Authority's agent in the Fire Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Fire Authority's name. Category 3 includes investments that are uninsured and unregistered, with the

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

securities held by the counterparty, or by its trust department or its agent but not in the Fire Authority's name. At year end, the Fire Authority held no investments.

**B. Receivables**

At year end, the Fire Authority had accounts receivable in the amount of \$5,724.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 8,680	\$ 0	\$ 0	\$ 8,680
Capital assets, being depreciated				
Buildings	342,495	0	0	342,495
Equipment	1,041,643	39,798	0	1,081,441
Total capital assets, being depreciated	1,384,138	39,798	0	1,423,936
Less accumulated depreciation for:				
Buildings	120,345	6,850	0	127,195
Equipment	711,497	43,546	0	755,043
Total accumulated depreciation	831,842	50,396	0	882,238
Total capital assets, being depreciated, net	552,296	(10,598)	0	541,698
Governmental activities capital assets, net	\$ 560,976	\$ (10,598)	\$ 0	\$ 550,378

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

    Public Safety \$ 50,396

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.



LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**D. Interfund Transfers**

Interfund Transfers as of March 31, 2006 were:

	TRANSFERS	
	IN	OUT
<u>Primary Government</u>		
General Fund	\$ 0	\$ 18,897
Improvement Revolving Fund	18,897	0
	<u>\$ 18,897</u>	<u>\$ 18,897</u>

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Fund Balance Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, certain portions of unreserved fund balances have been designated for intended future uses. These designations are detailed in the following schedule:

FUND BALANCE

Designated

Improvement Revolving Fund

Fire Authority Improvements

\$ 26,308

**F. Long-Term Debt**

During the year ending March 31, 2005, the Fire Authority obtained a bank loan for the purchase of a new fire truck. The balance at March 31, 2006 was \$79,762 with an interest rate of 3.49%.

A summary of the Long-Term Debt transactions for the Fire Authority for the year ended March 31, 2006 is as follows:

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Long-Term Debt at April 1, 2005	\$ 100,000
Additions	0
Deletions	<u>(20,238)</u>
Long-Term Debt at March 31, 2006	\$ 79,762
Less Current Portion	<u>(18,927)</u>
	\$ <u><u>60,835</u></u>

The annual requirements to amortize all long-term debt outstanding as of March 31, 2006 including interest payments of \$7,082 are as follows:

YEAR ENDING MARCH 31	PRINCIPAL	INTEREST	TOTAL
2007	18,927	2,784	21,711
2008	19,588	2,123	21,711
2009	20,268	1,443	21,711
2010	<u>20,979</u>	<u>732</u>	<u>21,711</u>
	\$ <u>79,762</u>	\$ <u>7,082</u>	\$ <u><u>86,844</u></u>

#### **IV. OTHER INFORMATION**

##### **A. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 70,683	\$ 70,683	\$ 101,409
Federal Grants	0	0	80,517
Charges for Services	24,000	24,000	12,900
Interest and Rents	0	0	134
Other Revenues	0	0	10,182
Total Revenues	94,683	94,683	205,142
<u>EXPENDITURES</u>			
Public Safety	110,681	110,681	185,993
Excess (Deficiency) of Revenues Over Expenditures	(15,998)	(15,998)	19,149
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer Out	0	0	(18,897)
Net Change in Fund Balance	(15,998)	(15,998)	252
<u>FUND BALANCE</u> - Beginning of Year	11,276	11,276	11,276
<u>FUND BALANCE</u> (Deficit) - End of Year	\$ (4,722)	\$ (4,722)	\$ 11,528

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GENERAL FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 5,804
Accounts Receivable	<u>5,724</u>
 TOTAL ASSETS	 <u><u>\$ 11,528</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Unreserved	<u>11,528</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 11,528</u></u>

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Contributions from Local Units	\$ 70,683	\$ 101,409
Charges for Services		
Fire Runs	24,000	12,900
Interest and Rents		
Interest Earnings	0	134
Other Revenues		
Miscellaneous	0	510
Contributions	0	4,000
Refunds and Reimbursements	0	5,672
Federal Sources		
FEMA Grant	0	80,517
Total Revenues	<u>94,683</u>	<u>205,142</u>
<u>EXPENDITURES</u>		
Public Safety		
Personal Services		
Salaries and Wages	15,000	17,864
Supplies		
Office and Computer Supplies	1,690	7,234
Operating Supplies		
Gas and Oil	2,255	2,233
Maintenance Supplies	515	301
Uniforms	2,539	2,313
Turnout Gear	2,392	2,389
Other Services and Charges		
Utilities and Telephone	5,767	5,750
Training	1,660	3,271
Repair and Maintenance		
Equipment	790	780
Building	3,750	3,750
Radio	2,491	2,960
Apparatus	4,775	2,765

LAKE MISSAUKEE AREA FIRE AUTHORITY

LAKE CITY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	BUDGET	ACTUAL
Audit	1,740	1,740
Logistics	1,389	928
Gas and Mileage Reimbursements	3,000	668
Other Functions		
Insurance and Bonds	12,668	12,668
Employee Benefits	3,000	1,367
Capital Outlay		
Equipment	15,308	95,301
Debt Service		
Principal	29,952	20,238
Interest	0	1,473
Total Expenditures	110,681	185,993
Excess (Deficiency) of Revenues Over Expenditures	(15,998)	19,149
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfer Out		
Improvement Revolving Fund	0	(18,897)
Net Change in Fund Balance	(15,998)	252
<u>FUND BALANCE</u> - Beginning of Year	11,276	11,276
<u>FUND BALANCE</u> (Deficit) - End of Year	\$ (4,722)	\$ 11,528

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND

BALANCE SHEET  
MARCH 31, 2006

ASSETS

Cash	\$ 27,046
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Unreserved

Designated for Fire Authority Improvements	27,046
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TOTAL LIABILITIES AND FUND BALANCE	\$ 27,046
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LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

IMPROVEMENT REVOLVING FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local Sources		
Interest and Rents		
Interest Earnings	\$ 0	\$ 816
<u>EXPENDITURES</u>		
Public Safety		
Fire Protection	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	0	816
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	<u>0</u>	<u>18,897</u>
Net Change in Fund Balance	0	19,713
<u>FUND BALANCE</u> - Beginning of Year	<u>0</u>	<u>7,333</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ 27,046</u>



# *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 4, 2006

## LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

As a result of our audit of the basic financial statements of Lake Missaukee Area Fire Authority for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Authority:

### Condition of Accounting Records

The accounting records were again found to be in good order and well organized. We would like to congratulate the accounting personnel for doing a good job and thank them for their efforts in accumulating the information needed for the audit.

### Credit Card Policy

The Fire Authority is currently using a Staples charge card, but has no credit card policy in place. We suggest that the Fire Authority adopt a credit card policy to strengthen internal control and comply with state law.

While we reviewed the credit card statements we did not observe the bills/invoices (source documents) themselves. Another suggestion for strengthening internal control is to attach the bills/invoices (source documents) to the credit card statement so the board can review each purchase.

### Budgeting Procedures

Pertaining to the Fire Authority's compliance with Public Act 621 of 1978, the following are noted:

1. The budget document should have the actual results from the prior year.
2. The amount of fund balance accumulated from prior years and the amount expected at the end of the upcoming year, after applying the budgeted revenues and expenditures, should be included in the budget document.

3. Total expenditures in the General Fund exceeded the budget.
4. A budget was not adopted for the Improvement Revolving Fund.

The Board should continue to monitor the budget and make amendments prior to incurring expenditures in excess of budgeted amounts.

We would like to thank the board for its continued confidence in our firm and to thank the Fire Authority officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

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M. WAYNE BEATTIE, C.P.A.  
1902 - 1990

JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
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JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

October 4, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

In planning and performing our audit of the financial statements of Lake Missaukee Area Fire Authority, Lake City, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Fire Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*